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IN THE
Supreme Court of the United States
OCTOBER TERM, 1993

DIGITAL EQUIPMENT CORPORATION,
Petitioner,
vs.
DESKTOP DIRECT, INC.
Respondent.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

BRIEF ON BEHALF OF *AMICUS CURIAE* SPECTRA-PHYSICS, INC. and SPECTRA-PHYSICS, SCANNING SYSTEMS, INC. IN SUPPORT OF PETITIONER

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Spectra-Physics Inc. and its wholly owned subsidiary Spectra-Physics Scanning Systems, Inc. hereby files its *Amicus Curiae* brief in support of Petitioner Digital Equipment Corporation in the above-identified case.

Consent to the filing of this brief has been requested from and granted by Petitioner and Respondent through their respective attorneys.

I.

INTEREST OF *AMICUS CURIAE*

Spectra-Physics, Inc. and its wholly-owned subsidiary, Spectra-Physics Scanning Systems, Inc. (hereinafter, collectively, "Spectra-Physics") are high-technology companies engaged in the commercial manufacture and development of lasers and devices employing laser technology. As is typical of high-technology companies, Spectra-Physics owns a substantial number of patents and the same is true of its direct competitors. Thus, Spectra-Physics and its competitors have, from time to time, had occasion to assert their patents against each other. Some such assertions result in litigation and some such litigation goes to final judgment.[1] However, such patent disputes are more often settled without the initiation of litigation and, even when patent litigation is initiated, the overwhelming majority of patent disputes are settled prior to trial.

Spectra-Physics is, at present, involved in one such patent dispute in which, after litigation had been underway for some time, a settlement was achieved and agreed upon. However, its adversary denied that a settlement agreement existed (on the assertion that there had not been a finalization of the agreement) and the District Court refused to enforce the settlement agreement. Spectra-Physics thereupon took an immediate appeal to the Federal Circuit Court of Appeals, *Spectra-Physics, Inc. v. Symbol Technologies, Inc.*, Appeal No. 93-1134, under the collateral order exception to the final judgment rule, *Cohen v. Beneficial Industrial Loan*

[1] *E.g., Spectra-Physics, Inc. v. Coherent, Inc.*, 827 F.2d 1524 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 954 (1987).

Corp., 337 U.S. 541 (1949). This appeal has been argued and is currently under submission at the Federal Circuit. The appellee has contested appellate jurisdiction relying, in part, on the appellate decision in the present case, reported as *Desktop Direct, Inc. v. Digital Equipment Corp.*, 993 F.2d 755 (10 Cir. 1993).

Spectra-Physics supports the position of Digital Equipment Corp., petitioner herein, that a District Court decision refusing to enforce a settlement agreement should be immediately appealable under the collateral order exception to the final judgment rule prescribed in *Cohen*. A ruling by this Court in the present case that immediate appeality is not warranted would have an adverse impact on the public policy interest favoring settlement of patent infringement cases, an impact that might not be discernable from the record in *Desktop*. Accordingly, Spectra-Physics urges that the appellate decision in *Desktop* be reversed for the reasons set forth below.

II.

SUMMARY OF ARGUMENT

The refusal of a District Court to enforce a settlement agreement is an "important" issue as contemplated by *Cohen* at 337 U.S. 546 because:

1) Absent an immediate appeal, the immunity from trial bargained for and secured in a settlement agreement will be irretrievably lost.

2) The strong public interest in the settlement of litigation cannot be denied and, in addition, the public is often directly affected by settlements

in certain types of private litigation, patent litigation being notable among these.

3) Settlements adjust the rights of the parties in a manner that a judicial determination on the merits cannot. For example, a large number of patent disputes are settled by licenses or cross-licenses which could not be compelled by a court.

III.

ARGUMENT

A. In The Absence Of An Immediate Appeal, The Immunity From Trial Secured By A Settlement Agreement Will Be Lost

At the very center of every settlement agreement is the fundamental proposition that there shall *be no trial.* Settlement results because both parties agree that they desire to avoid the expense, rigor and uncertainty of trial. In fact, avoidance of trial is often *the* reason that litigation is settled.

A settlement is not a "mere defense" to liability. The defenses to liability are those defenses on the merits raised by the defending party which contain sufficient substance to cause a settling complaining party to believe that the better course is to achieve the best negotiated resolution which can be accomplished. Once this is done, each party has made a compromise (the Plaintiff's acceptance of a smaller liability than that asserted in the complaint and the Defendant's acceptance of some liability and relinquishment of its denial of liability) in order to obtain something of value: *immunity from trial.*

That this immunity arises from private agreement rather than a constitutionally created right, such as the Fifth Amendment protection from double jeopardy, does not make it any less an immunity from suit.

If a party which has agreed to settle litigation can turn about and force the other settling party to trial simply by raising a claim of fraud, lack of meeting of the minds, or some other device, a refusal by a District Court to enforce the settlement agreement will, without the right of immediate appeal, produce an almost certain and extremely unfortunate result: a trial on the merits or a forced renegotiation. Without appellate review, the settling party who desires to adhere to the settlement agreement will see a valuable right, immunity from trial, achieved through settlement slipping away and will have to consider whether to accept more onerous terms or to proceed on to a trial, a trial which would result in the irretrievable loss of the immunity previously bargained for.

Is such a loss of immunity "important" within the meaning of *Cohen*? Absolutely. As recognized by every jurisprudential philosopher, the indispensable cornerstone of any viable legal system is the proposition that:

Agreements must be kept.

If settling parties cannot have confidence that the right to enforce a settlement agreement carries with it a right of immediate appeal, the incentive to settle will be substantially diminished because any colorable allegation which persuades a District Court that an *issue exists* as to whether one party failed to disclose a material fact, as to whether a meeting of the minds occurred, as to whether settlement was finalized, *etc.*, will result in a

trial *not* on just those issues, but on *all* issues involved in the original lawsuit.

On the other hand, an immediate appeal works little or no hardship on the party attempting to have the settlement agreement put aside. Immediate appellate review of whether that party is a reneging party or has some legally cognizable reason for not being bound by the settlement agreement involves far less expense than a trial and provides a reasonable safeguard against game-playing by a settling party who, after settling, has a form of "buyer's remorse" and wants to undo the bargain.

B. Many Private Settlements, *e.g.*, Those In Patent Cases, Directly Affect The Public Interest

In addition to the general public policy favoring settlement of litigation, it is also the fact that some settlements of private litigation directly affect the public interest. This is particularly true in patent litigation which this Court has repeatedly recognized as strongly affecting the public interest, *e.g.*, in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971) and, most recently, in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) where this Court, at 489 U.S. 146-157, reviewed the public importance of maintaining a careful balance between the need to promote innovation through the exclusive right granted by patents and the recognition that use of technology in the public domain should not be inhibited.

As recognized by the Federal Circuit Court of Appeals in *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348, 350 (Fed. Cir. 1988), quoting from *Aro Corp. v. Allied Witan Co.*, 531 F.2d 1368, 1372 (6 Cir. 1976):

> "Settlement is of particular value in patent litigation, the nature of which is inordinately complex and time consuming. Settlement agreements should therefore be upheld whenever equitable and policy considerations so permit."

Thus, if this Court were to pronounce a ruling in this case which also prevented the immediate appealability of District Court refusals to enforce settlement agreements in patent cases, such a ruling would have the inevitable effect of rendering less stable the balance struck by Congress between public and private rights in the patent laws.

C. Settlement Agreements Adjust The Rights Of The Parties In A Manner That Judgment On The Merits Cannot

The give-and-take involved in any settlement negotiation produce a result different in kind from the win-all, lose-all effect of a court determination on the merits. Plainly, there are important benefits to society from settlements which modulate the potentially drastic results of a judgment on the merits. Once again, this is particularly true in patent cases where licenses and cross-licenses are typical, but such licenses could not be compelled in a judgment on the merits. The public benefits from patent licenses because two competitors (even though one is subject to the competitive burden of a license royalty) who provide a product are preferable to the single source (which would result if the patentee prevailed) and are also preferable to the discouragement

to innovation which results when the defendant prevails and patents are held invalid.

Thus, a right of immediate appeal to assure a review of the enforceability of a settlement agreement serves the public interest by protecting against erroneous refusals to permit negotiated adjustments of rights to stand.

D. The Decision In *Desktop* Is Not Well Reasoned

The flawed reasoning in *Desktop Direct, Inc. v. Digital Equipment Corp.*, 993 F.2d 755 (10 Cir. 1993) is plainly revealed at 993 F.2d 760 where the Court said:

> "We do not see how a private settlement contract is significantly different from the contracted forum selection clause the Supreme Court refused to enforce through interlocutory appeal in *Lauro Lines*."

For the reasons set forth above, the difference between a private settlement agreement and a forum selection clause (which, in *Lauro Lines S.R.L. v. Chasser*, 490 U.S. 495 (1989) happened to be on the back of a steamship ticket and merely specified the place where litigation would occur) is profoundly different from a settlement agreement in which a fundamentally important part of the bargain is that there be no trial at all. Indeed, even though the 10th Circuit in *Desktop* makes a token recognition at 993 F.2d 758 of the "general proposition" that encouragement of private settlements is "desirable," it provides no basis for its conclusion that this importance is not sufficiently large to comport with the requirements of *Cohen*. To state the truisms that a private settlement agreement is not a

constitutionally created right and that various statutory or contractual arrangements with regard to the time or place of trial do not create an immunity from trial is no substitute for a reasoned demonstration that a private settlement agreement does not (a) create an immunity from suit and (b) is not sufficiently important to qualify under *Cohen*.

It is, upon analysis, indisputable that a private settlement agreement creates an immunity from suit. This is precisely what the parties bargain for. The decision in *Desktop* erroneously views this immunity as a mere defense to liability and as not important enough to warrant immediate appeal when there is a District Court refusal to enforce it. It is respectfully submitted that a refusal by a District Court to enforce a settlement agreement should be immediately appealable under *Cohen* because this privately created immunity from suit serves a very valuable public policy purpose which would be severely diluted if an immediate appeal were not permitted.

CONCLUSION

Public policy considerations tip very heavily in favor of making District Court refusals to enforce settlement agreements immediately appealable under *Cohen*. The decision in *Desktop* presented to this Court for review misperceives the fundamental nature of a settlement agreement as nothing more than a defense to liability rather than the immunity from suit which it is. Spectra-Physics, as *Amicus Curiae*, urges this Court to recognize the importance of immediate appellate review of a refusal to enforce a settlement agreement as an indispensable adjunct to the strong public policy favoring settlement of litigation. Accordingly, it is submitted that

the decision by the 10th Circuit Court of Appeals in *Desktop* should be reversed.

Dated: December 14, 1993.

Respectfully submitted,

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